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## Portugal

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**Report Highlights:**

Portugal is traditionally a surplus producer of raw milk, its self-sufficiency ratio currently close to 105 percent. The dairy industry is very focused on supplying the domestic market which can be a drawback at times of lower domestic consumption and higher prices on the world market. The country is suffering its worst economic crisis since the advent of the democratic regime in 1974. The budget proposal for 2012 contains measures to address the financial deficit such as temporary salary cuts for civil servants and the increase of VAT to even food items that were hitherto considered essential.

## **General Information:**

### **Disclaimer**

The following report is a Voluntary GAIN report on the dairy industry and market in Portugal. This report complements the EU-27 Annual Dairy Report. The data below is shared to help characterize the Portuguese industry and market – none of the figures are official USDA data.

### **Executive Summary**

Portugal is traditionally a surplus producer of raw milk, its self-sufficiency ratio currently close to 105 percent. The dairy industry is very focused on supplying the domestic market which can be a drawback at times of lower domestic consumption and higher prices on the world market. The country is suffering its worst economic crisis since the advent of the democratic regime in 1974.

The budget proposal for 2012 contains measures to address the financial deficit such as temporary salary cuts for civil servants and the increase of VAT to even food items that were hitherto considered essential. However, after great discussion and lobbying activity by all representatives of the food industry the Government's proposal seems to be less harmful to the dairy sector than expected. At present what is being proposed is a VAT increase from the lower tier of 6 percent to the highest tier of 23 percent only for dairy drinks and deserts.

In this setting dairy companies are increasingly promoting foreign markets as a privileged destiny for their products.

Other developments influenced the sector at the national level:

- the dairy sector was not defined as strategic in the Rural Development Program (PRODER) and therefore support for investment in the sector was not considered a priority.
- The regulatory system for animal production (REAP) imposes higher regulatory costs with licensing and maintenance of dairy farms.
- the option of distribution chains to import milk for their own brands makes it harder for national producers to sell their milk at compensating prices.

These factors contribute to lower commercial margins in the sector, particularly hitting smaller and average size dairy farms.

## **Fluid Milk**

Portugal did not surpass the available national production quota in the 2010/2011 milk campaign and as such will not have to pay any amount to the European Agricultural Guarantee Fund (EAGF). The quota assigned to Portugal for the 2011/2012 campaign is 2,019,644 tons.

Despite a fall in dairy cow numbers milk deliveries are expected to remain stable in 2011 because of an improvement in the herd genetics. The trend is expected to continue into 2012 as less efficient producers leave the industry and their animals are replaced by more productive cows in modern farms. The high cost of feed that is not being compensated by the price of milk has made producers choose an economic feed optimum that is below the technical optimum. Industry sources point out that Portugal could easily increase its milk production by 10-15% just by changing the way animals are fed.

Total domestic consumption was close to 1,850,000 tons in 2010 but is on a downward trend as a result of lower fluid use domestic consumption, lower factory use consumption, and lower feed use domestic consumption as the country's economy contracts.

The industry is betting on evolving from the production of UHT milk to a more differentiated production, especially in the southern region of the country. This is expected to contribute to Portugal increasing its market share in the Spanish market, the destiny to over 95 percent of Portuguese fluid milk exports. Milk exports are also increasing to African countries with a close relationship with Portugal such as Angola, Cape Verde, and São Tomé. Work is also being done by Portuguese distribution chains to increase exports to Morocco, Mauritania and Algeria.

**Table 1. Fluid Milk Production, Supply and Demand**

Dairy, Milk, Fluid Portugal	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
<b>Cows In Milk</b>	289	275	275
<b>Cow Milk Production</b>	1,829	1,829	1,830
<b>Other Milk Production</b>	105	103	102
<b>Total Production</b>	1,934	1,932	1,932
<b>Intra EU-27 Imports</b>	160	150	145
<b>Extra EU-27 Imports</b>	0	0	0
<b>Total Imports</b>	160	150	145
<b>Total Supply</b>	2,094	2,082	2,077
<b>Intra EU-27 Exports</b>	220	223	225
<b>Extra EU-27 Exports</b>	11	13	14
<b>Total Exports</b>	231	236	239
<b>Fluid Use Dom. Consum.</b>	890	885	880
<b>Factory Use Consum.</b>	943	931	929
<b>Feed Use Dom. Consum.</b>	30	30	30
<b>Total Dom. Consumption</b>	1,863	1,846	1,839
<b>Total Distribution</b>	2,094	2,082	2,077

1000 HEAD, 1000 MT

Source: FAS-Madrid estimates and GTA

## Cheese

There is a tradition of cheese making and eating in Portugal. These cheeses are made from cow milk and also from sheep and goat milk. Cheese uses approximately 30 percent of the cow milk produced in Portugal and a great variety of products arrive to the market. Just like butter, and especially powdered milk, cheese production from cow milk is very important in the Azores and production there is higher than on the Mainland. The most representative segment is the semi-hard cheeses of which “Flamengo” is the main type.

Cheese production is expected to keep rising through 2012 based on higher exports. This product is more dependent on buying power and this is decreasing in Portugal. Cheese consumption in Portugal is traditionally highest in Christmas and this year there will be an extraordinary tax on the December salaries, as part of the measures to curb the national financial deficit. The Government has also announced the suspension of the summer and Christmas holiday subsidies for civil servants during 2012 and 2013 on what amounts to an approximate 14 percent decrease in annual salaries.

Companies are working to increase cheese consumption by introducing innovative cheese products. Household consumption is not expected to grow but there is room for consumption growth in the HORECA channel that is very potent and not consuming as much national products as it could, as there are still no plants producing mozzarella or cheddar in the country. Changes in consumer habits induced by the current economic crisis are seen as having a potentially positive impact on cheese consumption

by the food industry – meals outside the household tend increasingly to be had on fast food outlets while home meals include a rising share of cheese rich ready meals. Total annual per capita cheese consumption stands at 7.2 kg.

Most exports are originated in the Azores and target African countries and emigrant communities in France, Switzerland, Venezuela, US, and Canada. Spain is currently the second most important destiny for cheese exports after Angola. All companies are working external markets fearing a decrease in internal consumption. Exports are growing at a close to 15 percent annual rate. Imports are mostly for distribution to fast-food outlets and the food industry. Spain is the main origin of imported cheese. Total cheese imports are expected to fall by more than 10 percent in 2011.

**Table 2. Cheese Production, Supply and Demand**

Dairy, Cheese Portugal	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	0	0	0
Production	53	56	58
Intra EU-27 Imports	29	26	25
Extra EU-27 Imports	0	0	0
Total Imports	29	26	25
Total Supply	82	82	83
Intra EU-27 Exports	3	3	4
Extra EU-27 Exports	4	4	5
Total Exports	7	7	9
Human Dom. Consumption	75	75	75
Other Use, Losses	0	0	0
Total Dom. Consumption	75	75	75
Total Use	82	82	83
Ending Stocks	0	0	0
Total Distribution	82	82	83

1000 MT

Source: FAS-Madrid estimates and GTA

## Butter

Butter production is projected to be down by 2 percent in 2011 at close to 27,000 tons. Butter is priced as a by-product when there is no alternative to fat. Butter consumption per capita is stable with a tendency to fall due to lower purchasing power but also to health concerns - it is calculated to be around 1.4 kg at present. Total imports of butter are expected to stabilize at a lower level in 2011 and 2012 with the same happening to exports.

During the 2010 period there were no intervention purchases for butter. Since 1 March 2011 there have been no offers and as such there are no intervention stocks for 2011 so far.

**Table 3. Butter Production, Supply and Demand**

Dairy, Butter Portugal	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	5	0	0
Production	26	28	28
Intra EU-27 Imports	8	6	6
Extra EU-27 Imports	0	0	0
Total Imports	8	6	6
Total Supply	39	34	34
Intra EU-27 Exports	20	16	17
Extra EU-27 Exports	1	1	2
Total Exports	21	18	18
Domestic Consumption	18	17	16
Total Use	39	34	34
Ending Stocks	0	0	0
Total Distribution	39	34	34
1000 MT			

Source: FAS-Madrid estimates and GTA

### Non Fat Dry Milk

The Portuguese production of powdered milk shows variation from year to year. This is due to the profound seasonality of production, to the pressure made by the powdered milk market, and to the contingencies of the markets of dairy products that are directed to the final consumer. This variation is also observed at the level of distribution of whole, semi-skimmed, and skimmed powdered milks.

Production takes place at six industrial units almost all producing exclusively powdered milk. The remaining units are associated to cheese production units, and they evaporate both milk and whey. The production of powdered milk on the Mainland only takes place – if at all – at certain times of year or when there are sudden and serious market conditions that hamper the flow of dairy products to the market. In the Azores, the production of powdered milk – despite efforts to decrease it – happens regularly and especial in the months with higher milk production of March to July.

Although Portugal is currently not a surplus producer of non fat dry milk its exports still correspond to an important share of production. The whole of the remaining production is destined to be incorporated in other industrial products. Production of non fat dry milk is of around 8,000 tons per year and human consumption is estimated to be lower in 2011 at slightly above 9,000 tons. Animal consumption depends on price relativities between NFDM, which is richer on protein, and whey powder. Concentrated feed is being replaced by cheaper kinds of feed.

Total imports are expected to fall to below 6,000 tons in 2011 while exports are expected to be close to

the levels of 2010.

During the 2010 period there were no intervention purchases for non fat dry milk. Since 1 March 2011 there have been no offers and as such there are no intervention stocks for 2011 so far.

**Table 4. Non Fat Dry Milk Production, Supply and Demand**

Dairy, Milk, Nonfat Dry Portugal	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	2	1	0
Production	9	8	8
Intra EU-27 Imports	7	6	6
Extra EU-27 Imports	0	0	0
Total Imports	7	6	6
Total Supply	18	14	14
Intra EU-27 Exports	5	4	4
Extra EU-27 Exports	0	0	0
Total Exports	5	4	4
Human Dom. Consumption	10	9	9
Other Use, Losses	2	1	1
Total Dom. Consumption	12	10	10
Total Use	17	14	14
Ending Stocks	1	0	0
Total Distribution	18	14	14
1000 MT			

Source: FAS-Madrid estimates and GTA

## Dry Whole Milk Powder

Portugal is a surplus producer of dry whole milk powder but production is showing signs of a moderate slow down in 2011. Domestic consumption is expected to be around 6,000 tons this year. Imports are rebounding in 2011 after an almost 40 percent fall in the previous year. Exports on the other hand have been falling in 2011, accompanying a lower production of these products.

**Table 5. Dry Whole Milk Powder Production, Supply and Demand**

Dairy, Dry Whole Milk Powder Portugal	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	0	0	0
Production	10	10	9
Intra EU-27 Imports	3	4	5
Extra EU-27 Imports	0	0	0
Total Imports	3	4	5
Total Supply	13	14	14
Intra EU-27 Exports	8	6	6
Extra EU-27 Exports	2	2	2
Total Exports	10	8	8
Human Dom. Consumption	3	6	6
Other Use, Losses	0	0	0
Total Dom. Consumption	3	6	6
Total Use	13	14	14
Ending Stocks	0	0	0
Total Distribution	13	14	14
1000 MT			

Source: FAS-Madrid estimates and GTA

## Policy

Portugal is one of the Member States most affected by the “Soft landing” policy - increasing Member States’ raw milk production quotas by 1 percent a year until its abolishment in 2015 – as it is expected to be subject to more imports from more competitive countries as these increase their production capacity. Farmer cooperatives and the dairy industry are pressuring the Government to keep defending the quota system even in the face of the EC apparently irreversible decision to end the regime. This is seen as serving the aim of increasing Portugal’s bargaining power in getting compensation and/or looking for other kind of production limiting measure after 2015.

Farmers are facing problems with adjusting to new environmental regulations due to be in place in 2015, namely with the licensing of production units under the regulatory system for animal production (REAP). As a consequence of the more demanding environmental and land planning rules there is currently a dislocation of production units from seaside to the hinterland, mainly in the northern part of the country.

The dairy sector was not defined as strategic in the Rural Development Program (PRODER) that runs from 2007 to 2013 and therefore support for investment in the sector was not considered a priority. Without the guarantee of funds for structural reform farmers can only aim at improving their management skills to lower costs and gain competitiveness. More small farmers are expected to leave



production until 2015.

The relationship between industry and distribution remains edgy. Of particular relevance is the concern that distribution chains import milk for their own brands thereby making it harder for national producers to sell their milk at compensating prices. Producer associations and industry bodies have been calling for higher Government control that commercial legislation is being followed by all stakeholders.

As part of the IMF/EU bailout deal the Portuguese Government is reviewing its VAT regime. The common VAT rate is 23 percent at present but currently most dairy products are included in the lower tier of 6 percent. A further contraction in consumption is expected should the VAT rate applied to dairy products be increased.